FARMERS' NEWSLETTER

Aug. 78/G-3

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Real Estate

The farm real estate market is perking up. So now is a good time to ponder whether you want to get in on the action.

The number of sales will increase this year. So will farm income, and that's why buyers are actively looking. How much will farmland value rise? That will depend on local conditions.

Nationwide, economists see farmland values rising 6 to 10 percent in the 12 months ending next February 1, following a slow start earlier in the year. Last year's average gain was 9 percent, the smallest in several years.

This year's prospects for net farm income and farm exports have kept looking better, especially since early spring.

Some of the other signposts to watch--

- The Consumer Price Index.
- Land bought for farm enlargement.
- Credit availability and interest rates.
- Competition from foreign investors.

The Farmers' Newsletter, formerly Commodity Outlook for Farmers, is authorized by Congress and written and published by USDA's Economics, Statistics, and Cooperatives Service. Materials in the newsletter are approved by the World Food and Agricultural Outlook and Situation Board.

Transfers Tied to Income

More farmland will change hands this year than last. Mainly, that forecast rests on the historical association between farm income and real estate transfers. Transfers jumped dramatically during 1944-48 and again in 1972-75--both periods of high net farm income.

In contrast, in the reporting year ended last February 1, farm income had been depressed. And only about 42 tracts per 1,000 farms changed hands, down 3 percent from the previous year and the least since 1970.

Transfers this year should easily top that mark, considering that net farm income is slated to jump to $25 billion, compared to last year's $20.6 billion.

Since last fall, prices received by farmers have advanced nearly 25 percent. Wheat prices are up almost 30 percent; soybeans, 25; corn, nearly 50; and cattle, nearly 50.

And farm price support programs--by strengthening farm incomes--have eliminated some of the risks in buying farmland.

In short, potential buyers and sellers right now may be taking less of a wait-and-see attitude than this time last year, when the cost-price squeeze was especially acute. Also, potential buyers, watching the high rate of ge-

neral inflation this year, may be more inclined to buy now rather than put it off any longer.

But, don't assume anything approaching a land rush. Only a small amount of farmland typically changes hands each year, around 2 percent of the national acreage in farms.

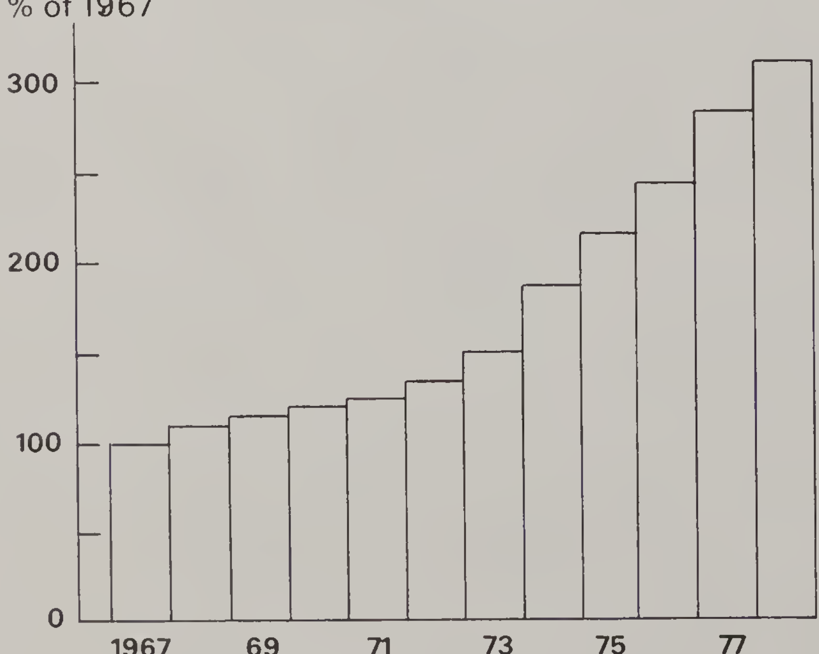
Exports Boost Values

Much of the rise in farmland values we're seeing today started back in 1972 with the huge spurt in exports, which, in turn, pushed up farm income.

PERCENT CHANGE IN AVERAGE VALUE OF FARM REAL ESTATE PER ACRE
February 1977-February 1978

* Average Increase for New England States

INDEX OF U.S. FARMLAND VALUE PER ACRE
% of 1967



Reported as of March 1, 1967-75, and February 1, 1976, to date.

Prices of Farm Real Estate

	Dollars per acre			
	1975	1976	1977	1978
Northeast	812	790	823	1,071
Lake States . . .	562	696	788	865
Corn Belt.	790	1,054	1,345	1,443
Northern Plains .	286	350	412	412
Appalachian . . .	560	722	689	789
Southeast	648	588	682	735
Delta	411	580	658	698
Southern Plains .	276	303	374	400
Mountain.	168	210	244	175
Pacific	622	691	783	797
48 States. . . .	438	528	654	591

Year ending March 1.

U.S. farmland became such a prime investment that land values shot up an average of 118 percent in fewer than 5 1/2 years.

Latest forecast for fiscal 1978: Our overseas farm sales will surpass last year's $24 billion--of itself a record--by about $1 to $2 billion. And the agricultural trade surplus (export values minus agricultural imports) should mount to about $12.5 billion, or $2 billion more than last year. That augurs well for the economy as a whole.

Beating Inflation

Inflation in the general economy is reflected in the farm real estate market, so much so the rate of return based on farm income is often reported separately from gains derived from appreciation in land values.

While rates of return from farm income over the past 20 years were very low compared with alternative investments, farmland values for 1957-77 rose about twice as fast as the Consumer Price Index.

Farm Enlargement Hikes Values

Tracts sold to enlarge existing farms generally fetch better prices than those sold as complete units.

Reason: Advancing technology allows progressive farmers to spread the fixed costs of capital and labor over more acres. Land is often the limiting factor when a farmer wants to expand, and he'll pay the price to keep up with the competition. With the generally low rate of turnover for farmland, moreover, it's hard to predict when another tract close by and suitable for enlargements will come on the market.

The trend toward farm enlargement is decidedly upward. For the year ended last March 1, almost 60 percent of land purchases went for farm enlargement, up from less than 30 percent in 1954.

If you farm in the Northern Plains or Corn Belt, chances are greater than 7 in 10 that purchases will be for farm enlargement. In the Northeast--where the wooded hills and the dairy and vegetable farms are less favorable for economies of size--the chances are about 3 in 10.

For the Would-be Farmer

You know he's got the itch, but only a vague idea of what it takes to get started in farming today. If you wish, we'll be happy to write him a letter outlining some of the things he really should know before he takes the plunge. Send his name and address to:

Farmers' Newsletter, USDA
Rm. 300, 500 12th St., SW
Washington, D.C. 20250.

Easier Credit?

Credit availability for farm real estate loans tightened a bit in 1977, notably in the Lake States, Corn Belt, and Pacific States. This was reflected in higher interest rates.

Still, getting loans to buy farmland has been no insurmountable problem. Even though interest rates aren't expected to go down this year, the improved outlook for farm income could prompt lenders to make loan money more easily available. The average interest rate charged by the Federal land banks on new money loaned during the first part of 1978 was 8.23 percent.

In the year ended March 1, sellers provided about 38 percent of credit volume, down from 39 percent in the previous year and the 1970 high of 61 percent. But that's still the leading way to finance the sale.

Federal land banks ranked second in new loans, with about 25 percent of the market, though life insurance companies were moving up: Their share rose from 9 to 15 percent in the last 2 years.

Foreigners in Real Estate

Foreign investments in U.S. farmland have gotten much attention, partly because the large, lump sum payments for real estate draw the public eye.

The best information to date is a 1975 Government survey of 6,000 foreign firms and individuals with direct investments in the United States. It showed that those with at least 200 acres owned a total of about 5 million acres. Assuming all this was farm real estate--and that's not an established fact--then they controlled just a half of 1 percent of all U.S. farmland.

USDA and other Federal agencies have studies in the works to get a better handle on the extent of foreign ownership. In Congress, the agriculture committees of both the House and Senate have passed a bill requiring the Secretary of USDA to set up a monitoring and reporting system of all foreign investments in agricultural land.

Meanwhile, reports indicate that foreign investment activity is most prevalent in the Delta States and in California. A few farmers in these parts may have a tough time competing for new listings.

Price Vs. Use

The price of the land depends on its potential use.

Of the farm real estate transfers in the year ended last March 1, about nine-tenths of the acreage should still be in agriculture 5 years from now. Nationally, that land sold for an average of $595 an acre. Land for forestry went for $373...recreation land for $508.

On the high end, commercial and industrial property brought $2,008, followed by tracts for rural dwellings at $1,024.

The Southeast led in forestry, but more and more tree farms have been turning up in the Delta and Appalachian States.

The Southern Plains and Lake States were big on recreation. Purchases for rural residences showed no real regional pattern. But wherever the activity, the call was for small tracts, especially if buildings came with the deal.

In general, the smaller the tract, the better the price per acre. For the year ended last March 1, tracts under 100 acres commanded twice the national average.

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For More Information

In early 1978, an acre of U.S. farmland was valued at a record $490 on the average, ranging from $93 in New Mexico to $2,051 in New Jersey. Breakdowns by State, plus other tables depicting the farm real estate scene, appear in Farm Real Estate Market Developments, CD-83. Write ESCS Publications, Room 0054-S., USDA, Wash., D.C. 20250. Free while supplies last.

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